Australia: Telecommunications

December 2008

Summary

The US$30 billion Australian telecommunications market is growing at four percent per annum. The American market share is 28%.

Good opportunities exist for American vendors of VoIP equipment and solutions. Many large Australian companies have implemented VoIP solutions, but opportunities still exist in supplying services and solutions to the Small-to-Medium Enterprise (SME) market.

Over the last few years, companies have invested significantly in Telecommunication infrastructure such as VoIP, broadband, and 3G networks. These companies are now offering differentiated services such as Naked DSL – a mix of DSL and VoIP telephony services.

From 2005 to 2008, the number of broadband subscribers increased from less than two million subscribers to over five million subscribers. The most popular technology is DSL, but Australian Internet Service Providers (ISPs) persist with offering plans that have download limits. Cable offers the most affordable high-speed Internet access but many Australians do not have access to the Telestra or Optus cable networks.

The Federal Government is negotiating with carriers such as Telstra, and a consortium of Optus, AAPT, Primus, and Macquarie Telecom to roll out a national high-speed broadband network. After the Federal Government approves the US$3 billion project, there will be an excellent opportunity for U.S. Telecommunication technology companies.

Market Demand

An OECD survey of 30 developed countries ranked Australia 12th in broadband penetration, 25th in available internet bandwidth, and 15th in network readiness. A recent Ovum report ranked Australia 11th for internet speeds (maximum 20 Mbps). This is still a long way behind world leaders Singapore and Hong Kong with about 100 Mbps networks, respectively. According to the Australian Bureau of Statistics in November 2007, there were 7.2 million internet subscribers. Non dial-up subscribers represent 75 percent of this market. About 71 percent of non dial-up subscribers use xDSL technologies. There are about 600,000 wireless subscribers and 80,000 satellite subscribers.

From September 2006 to December 2007, the number of users signing up for plans greater than 1.5 Mbps increased from 1.13 million to 2.51 million. Australians are receptive to high-tech equipment, creating opportunities for U.S. vendors of telecommunications equipment and services, particularly once the federal government provides a business environment that is conducive for broadband roll out. This will develop Australia as a leader in broadband infrastructure and penetration.

There are over 20 million cell phone users in the local market. 3G is the predominant mobile technology. Voice calls, SMS, and providing data and content are on the rise. Once 3G data plans become less expensive, consumers will sign up for more mobile, online services. 3G plans are viable options for households that want wireless broadband access. At present, the mobile carriers, Vodaphone, Three, Virgin, Optus, and Telstra offer 3G broadband access plans. Typically, a 2 Gigabyte plan costs US$22 per month (plus a US$70 USB modem). At the fixed broadband level, industry reports show that the only real price competition exists in offering ADSL+2 services. For the last 18 months, companies offering xDSL speeds up to 8Mbps have all kept their prices fairly

constant. Companies offering ADSL+2 services such as ISPs, Telstra BigPond, Optus, iiNet, iPrimus, Internode, and TPG Internet, compete aggressively on price so ADSL+2 prices are falling. These carriers' best packages are bundled with phone line rental (approximately US$20 month) and phone services. As prices for these services fall, more consumers will come online and use the full array of telecommunications technologies available. For example, some of the ISPs – iiNet, Internode, and Exetel now offer Naked DSL plans, including free VoIP calls. The more traditional carriers including Telstra, Optus, and AAPT do not offer these services, presumably because it conflicts with their fixed line incomes. Consumers who shift to high-speed Internet plans will drive the Australian market for technologies like VoIP.

At the enterprise level, VoIP has made excellent inroads into large Australian corporations. Over the last five years, companies keen to reduce operating costs started rolling out VoIP solutions internally. Many utilize VoIP technologies externally as well in their contact centers. The enterprise VoIP market is mature. The best opportunities exist in supplying VoIP solutions to the SME market. As broadband costs fall, many SMEs can purchase more software-based switching solutions and the attendant hardware to drive these solutions.

The potential for Fixed Wireless Access (FWA) wireless technologies (excluding 3G data broadband) remains largely underexploited. One of the key attractions of signing up to a wireless service is that consumers can do away with landline rentals. Connection is also a relatively simple process. Unwired is one of the leading lights in the provision of FWA services. Its network is based on Navini Networks technology and, with the help of a direct US$25 million injection from Intel, hopes to build out Australia's first mobile WiMAX network. Unwired has approximately 70,000 customers and, compared to fixed wire broadband plans, their plans are at best average. Plans such as those offered by Unwired suit those consumers who cannot or do not want access to a landline.

Australian Telecommunications carriers continue to develop and upgrade existing networks and collectively spend US$2.5 billion each year to maintain existing networks. These carriers undertake network infrastructure purchases on an "invitation only" basis to selected international telecommunications vendors.

In May 2008, the Federal Government issued a Request for Proposal (RFP) to build a US$8 billion National Broadband Network (NBN). The government wants the majority of the Australian population to have access to a minimum 12 Mbs, fibre-based, national-broadband network. The NBN project represents an excellent opportunity for IT security vendors. Likely prime suppliers include Telstra and a consortium of smaller telecommunications carriers, such as Primus, Optus, and Macquarie Telecommunications.

Market Data

U.S. exports of telecommunications equipment to Australia represent about 28 percent of the total import market. France, Germany, Sweden, Canada, Japan and the United Kingdom are also leading exporters of telecommunications equipment to Australia. Revenues in the telecommunications market grew by four percent in 2007

Telecommunications Hardware Market

DATA TABLE (Millions US$)

	2006	2007	2008 (estimated)
Total Market Size	5,418	7,050	7,332
Total Local Production	2,568	2,700	2,808
Total Exports	600	620	649
Total Imports	3,100	3,950	4,108
Imports from the U.S.	890	1,250	1,300

Exchange rates: US$0.65 = AU$1.00

Major Telecom Indicators

	Fixed-Line		Cellular Phone		Internet		Broadband Intern	
Population/ Households	# Of HH	P Rate (%)	# Of SS	P Rate (%)	# of subscriber	P Rate (%)	# of subscribers	P Rate (%)
	11.26 M	98	21 M	99	2	25	5.4	55

Notes: M - Millions, SS - Subscribers, P - Penetration, and HH - Households.

The table above shows that fixed-line and cell phone penetration are both near 100 percent. Broadband is now the most popular Internet access technology.

Best Prospects

Opportunities exist for U.S. vendors of equipment for expanding their telecommunications networks in Australia. These products include switches, routers, security solutions, power supplies, and network monitoring tools. The VoIP market is maturing, but the SME market still offers U.S. vendors of both hardware and software solutions good opportunities. IT security vendors from the U.S. also have an opportunity to expand into the Australian market since the government has issued an RFP for a US$3 billion NBN.

Key Suppliers

The U.S. accounts for a large proportion of Australian imports of telecommunications products and services. U.S. companies, such as Cisco, Intel, Motorola, Avaya, Juniper Networks, Foundry Networks, and Extreme Networks, have Australian subsidiaries and large local service divisions. Multinationals such as Alcatel, Ericsson, Siemens, Nortel, Nokia, NEC, and Samsung also have Australian offices.

Prospective Buyers

Telecommunications carriers are tier one targets in Australia. These include Telstra, Singtel Optus, AAPT, Primus, Hutchison, Vodafone, Virgin Mobile as well as the larger ISPs including BigPond, Optus, iiNet, Exetel, People Telecom, AAPT, and iPrimus. Telstra has approximately 48 percent share of the retail broadband market, Optus approximately 15 percent, iiNet, five percent, TPG five percent, iPrimus four percent, AAPT three-four percent and

Unwired one percent.

Telecommunications Overview

Services	Coverage	No. of Service Providers or Networks
Fixed	100 % of Population	369 voice service providers
Mobile		
3G	98.8 % of Population	3 Networks (Telstra, Optus, Three)
		Optus shares with infrastructure with Vodaphone and Virgin
Broadband		
HFC Cable	2.7 Million Homes networks	4 Carriers with regional and metropolitan
ADSL installations	91 % of Population	19 Carriers with active DSLAM
Wireless	Selected metro. And regional areas	204
Satellite	100% of Population	41

There are approximately 659 ISPs in the local market.

The top 200 Australian companies are ideal targets for U.S. telecommunications vendors. Clients in the private sector come from the following:

- Finance and Insurance - Commonwealth Bank, National Australia Bank, Westpac, ANZ, Suncorp, St George, AMP, GIO,
- Retail – Harvey Norman, Myer Coles, David Jones
- Mining – BHP, Blue Steel
- Manufacturing – GMH, Ford, Toyota

The Federal Government purchases about 50% of Australia's telecommunications products and services. Welfare agencies, such as Medicare, Centrelink, and the Department of Veterans' Affairs are key clients. The defense market is also a key plank of any government account strategy.

The process of tendering for Australian government projects is transparent and will suit the way U.S. companies conduct business. The Australian government and its federal agencies will need assurance from the U.S. company that it will provide support and service in Australia. The U.S. company will need to partner with a local company or install its own support team in the country in order to guarantee support and service in Australia.

Whilst sales cycles on most telecommunications projects can be reasonably long, U.S. vendors need to be aware that they are even longer for government tenders.

Service providers and the channel in general, whilst not being a pure end-user, will also be a key component driving sales. U.S. vendors will need to engage large integrators, like IBM, EDS, CSC, and locally KAZ Computing, Optus, Telstra and Alpha West to reach corporate end-user

Market Entry Strategies

There are a number of options open to U.S. IT companies who want to sell products into the local market.

- Open a subsidiary. There are considerable up-front costs associated with this model; hire staff, compliance with local HR laws, lease office space, and marketing costs.
- Identify a sales partner(s) who can carry out lead generation, pre-sales, implementation and support services.
- Generate leads directly from the U.S, and implement remotely or engage a local firm to carry out the implementation.

Australian firms stress the importance of local support and service when distance between trading partners is far. Therefore, market entry plan three is probably the least viable to implement. Government agencies will always show a preference to award contracts to companies who can provide local support.

American companies should visit Australia both to meet prospective partners and to demonstrate ongoing support, as this is the common practice of their European competitors.

For a comprehensive analysis of the local ICT distribution channel, readers are encouraged to refer to a recent report entitled *Australian ICT Distribution Channels* by the same author.

Market Access Issues and Obstacles

In 2005, Australia and the United States enacted a Free Trade Agreement (FTA). The FTA eliminated duties on more than 99 percent of tariff lines including IT software and hardware.

The Australian government imposes a Goods and Services Tax (GST) on both imported and locally manufactured equipment. The GST is a broad-based tax of ten percent on the supply of most goods and services consumed in Australia. It is akin to the value-added tax systems in Canada and Europe.

Foreign companies that provide consulting and other services within the market are required to register for an Australian Business Number (ABN). By registering for an ABN, the Australian Tax Office is able to ensure that the Australian customer pays GST on the service it receives. U.S. firms who are exporting products to Australia, as opposed to providing in-country services, do not need an ABN number.

The Australian Communications and Media Authority (ACMA) www.acma.gov.au is empowered via the Telecommunications and Radiocommunications Acts to mandate technical standards relating to items of customer equipment, customer cabling and specified devices. The aim is to protect personal health and safety, facilitate access to emergency services, protect the integrity of public networks, enable interoperability of voice telephony services, and contain interference to and from a range of radiocommunications and non-radio communications devices. These standards include: Electronic Compatibility Arrangements (EMC), Electromagnetic Radiation Arrangements (EMR), Radiocommunications Regulatory Arrangements, Telecommunications Regulatory Arrangements, and Network Standards and Codes.

In the majority of instances, international Standards are recognized in Australia. This eliminates the necessity of re-testing. For EMC compliance, international standards EN 55022 or CISPR 22 are recognized locally.

Software, such as switchless, software-based solutions for call and contact centers that indirectly connect to the local telecommunications network require compliance with the local Telecommunications and Radiocommunications Act.

Responsibility for establishing and attesting to compliance typically lies with the importer, manufacturer, their authorized agent, or in some cases the licensed operator of a device.

More information on Standards can be found at:

Standards Australia
11 The Crescent
Homebush NSW 2140 Australia
Tel: 61-2-9746 4700
Fax: 61-2-9746 8450
Website: www.standards.com.au

More information on the Telecommunications and Radiocommunications Act and the role that the ACMA has in its regulation can be found at:

Australian Communications and Media Authority
Level 15, Tower 1, Darling Park

201 Sussex Street
Sydney NSW 2000
Tel: 61 2 9334 7700

Website: www.acma.gov.au

Trade Events

CeBIT Australia 2009
CeBIT Australia 2009□12 – 14 May
Sydney Convention & Exhibition Centre, Darling Harbour
Email: info@cebit.com.au
Web: www.cebit.com.au

AusCERT Asia Pacific Information Security Conference 2009

17-22 May 2009
Crowne Plaza, Royal Pines Resort, Gold Coast
Email: auscert@auscert.org.au
Web: http://conference.auscert.org.au/

Resources & Key Contacts

Australian Communications and Media Authority
Level 15, Tower 1, Darling Park
201 Sussex Street
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Phone: + 61 2 9334-7700
www.acma.gov.au

Australian Government Tenders
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www.tenders.gov.au

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http://www.iia.net.au

Telecommunications Industry Ombudsman
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Email: tio@tio.com.au
www.tio.com.au

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Fax: +61 2 9954-6136
Email: info@commsalliance.com.au

http://www.commsalliance.com.au

Whirlpool Broadband Forum – Telecommunications Discussion Forum
www.forums.whirlpool.net.au

For More Information

The U.S. Commercial Service in Sydney, Australia can be contacted via e-mail at Duncan.archibald@mail.doc.gov; Phone: +61 2 9373-9212; Fax: +61 2 9221-0573 or visit our website: www.buyusa.gov/australia

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